

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Hillsdale County	County	HILLSDALE	Type	COUNTY	MuniCode	30000
Opinion Date	June 27, 2008	Audit Submitted	June 28, 2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="10,384,826"/>
General Fund Expenditure:	<input type="text" value="10,914,513"/>
Major Fund Deficit Amount:	<input type="text" value="None"/>

General Fund Balance:	<input type="text" value="1,342,067"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="4,223,684"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	David	Last Name	Fisher	Ten Digit License Number	1101010337				
CPA Street Address	675 Robinson Rd	City	Jackson	State	Mi	Zip Code	49203	Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	29 N. Howell	City	Hillsdale	Zip Code	49242		

COUNTY OF HILLSDALE, MICHIGAN



Financial Statements

For the Fiscal Year Ended December 31, 2007



REHMANN ROBSON

Certified Public Accountants

HILLSDALE COUNTY, MICHIGAN

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HILLSDALE COUNTY, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 27, 2008

To the Board of Commissioners of
Hillsdale County
Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **HILLSDALE COUNTY, MICHIGAN** as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hillsdale County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Hillsdale County, Michigan**, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund and major special revenue funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2008, on our consideration of the County's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillsdale County's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Hillsdale County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION and ANALYSIS

COUNTY OF HILLSDALE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The following discussion and analysis of the financial performance for County of Hillsdale ("County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the County's financial statements which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended December 31, 2007:

- In 2004, the State of Michigan mandated a change in the way Michigan counties are funded. Revenue sharing for counties was eliminated and replaced by a shift in the county property tax collections over the course of the subsequent 3 years. Counties were required to begin setting aside 1/3 of property tax collections each year from 2004 through 2006 to supplement the lost revenue sharing. According to projections by the State of Michigan, this alternative funding method should keep Hillsdale County at similar revenue levels through the year 2010.
- Accessibility at the County Courthouse was improved through the construction of an elevator and handicap accessible restrooms on the east side of the building. The \$1 million project was financed in part with a \$600,000 installment purchase contract at 4.2% over 5 years. Construction was completed in the spring of 2008.
- The Hillsdale County Medical Care Facility had another strong year, posting a surplus of \$1,142,101. Construction continued on the \$8 million addition, which increased the number of private rooms at the Facility from 24 to 120 when completed in the spring of 2008.
- Lower interest rates prompted the refunding of the Water System Bonds for the Village of Jonesville, savings the residents approximately \$60,000 over the remaining life of the bonds.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the County's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

- The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

Fund financial statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Hillsdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the County's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- Governmental Funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

- Proprietary Funds - *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate workers compensation costs internally among the County's various functions. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.
- Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County of Hillsdale's own programs. The basis of accounting used for fiduciary funds is much like that used for proprietary funds.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The County as a Whole

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps explain the condition of the County. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) of the County as of the end of the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current Assets	\$ 9,886	\$ 9,592	\$ 16,095	\$ 11,960	\$ 25,981	\$ 21,552
Capital Assets	<u>3,667</u>	<u>4,567</u>	<u>4,467</u>	<u>9,991</u>	<u>8,134</u>	<u>14,558</u>
Total Assets	<u>\$ 13,553</u>	<u>\$ 14,159</u>	<u>\$ 20,562</u>	<u>\$ 21,951</u>	<u>\$ 34,115</u>	<u>\$ 36,110</u>
Current Liabilities	\$ 1,898	\$ 2,147	\$ 4,491	\$ 3,122	\$ 6,389	\$ 5,269
Long-term Liabilities	<u>3,566</u>	<u>4,224</u>	<u>12,010</u>	<u>13,780</u>	<u>15,576</u>	<u>18,004</u>
Total Liabilities	<u>\$ 5,464</u>	<u>\$ 6,371</u>	<u>\$ 16,501</u>	<u>\$ 16,902</u>	<u>\$ 21,965</u>	<u>\$ 23,273</u>
Net Assets:						
Invested in Capital Assets, net of debt	\$ 2,296	\$ 2,680	\$ 1,521	\$ 221	\$ 3,817	\$ 2,901
Restricted	4,115	3,388	667	596	4,782	3,984
Unrestricted	<u>5,122</u>	<u>1,720</u>	<u>1,873</u>	<u>4,232</u>	<u>3,551</u>	<u>5,952</u>
Total Net Assets	<u>\$ 8,089</u>	<u>\$ 7,788</u>	<u>\$ 4,061</u>	<u>\$ 5,049</u>	<u>\$ 12,150</u>	<u>\$ 12,837</u>

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's combined net assets increased 5.6% from a year ago - - increasing from \$12.1 million to \$12.8 million. Governmental activities experienced a small decrease in net assets of \$301 thousand (3.7%). Business-type activities experienced a \$988 thousand increase in net assets (24.3%), mainly due to continued favorable financial results at the Medical Care Facility.

The following table shows the changes in net assets (in thousands of dollars) of the County during the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Program Revenues						
Charges for Services	\$ 2,278	\$ 2,177	\$ 11,863	\$ 12,452	\$ 14,141	\$ 14,629
Operating Grants and Contributions	3,300	2,764	3,617	4,868	6,917	7,632
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes - general purposes	8,667	7,473	0	0	8,667	7,473
State Shared Revenue	0	0	0	0	0	0
Unrestricted Investment Earnings	214	331	0	0	214	331
Transfers and Other Revenue	450	666	(450)	(666)	0	0
Total Revenues	<u>\$ 14,909</u>	<u>\$ 13,411</u>	<u>\$ 15,030</u>	<u>\$ 16,654</u>	<u>\$ 29,939</u>	<u>\$ 30,065</u>
Program Expenses						
General Government	\$ 2,467	\$ 3,756	\$ 0	\$ 0	\$ 2,467	\$ 3,756
Legislative	118	133	0	0	118	133
Judicial	1,767	1,939	0	0	1,767	1,939
Public Safety	3,461	3,706	0	0	3,461	3,706
Public Works	19	20	0	0	19	20
Health and Welfare	2,319	2,747	0	0	2,319	2,747
Other governmental activities	3,731	1,398	0	0	3,731	1,398
Interest on Long-Term Debt	0	13	0	0	0	13
Medical Care Facility Operations	0	0	12,850	13,292	12,850	13,292
Delinquent Tax Collection	0	0	205	1,238	205	1,238
Emergency Services	0	0	789	799	789	799
Geographic Information Services	0	0	38	30	38	30
Board of Public Works	0	0	232	307	232	307
Total Expenses	<u>\$ 13,882</u>	<u>\$ 13,712</u>	<u>\$ 14,114</u>	<u>\$ 15,666</u>	<u>\$ 27,996</u>	<u>\$ 29,378</u>
Change in Net Assets	<u>\$ 1,027</u>	<u>\$ (301)</u>	<u>\$ 916</u>	<u>\$ 988</u>	<u>\$ 1,943</u>	<u>\$ 687</u>

Governmental Activities

Total governmental revenues decreased by nearly \$1.5 million due to the "tax shift" mandated by the State of Michigan. Governmental expenses decreased slightly (1.2%).

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

The County's business-type activities consist primarily of the Medical Care Facility Fund. Medical Care Facility revenue increased approximately \$336 thousand and expenses increased approximately \$102 thousand. The year's surplus of \$1.14 million, along with the prior year's surplus of \$925 thousand, represents a tremendous improvement over the \$1.18 million in total losses incurred over the previous three years. The improvement is the result of full occupancy levels at the Facility.

The County's Funds

The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's Major Governmental Funds for 2007 include the General Fund, the Revenue Sharing Reserve Fund, and the Senior Center Debt Service Fund.

The General Fund pays for most of the County's governmental services. The most significant are public safety, general government, judicial, and employee benefits, which incurred expenses of approximately \$3.1 million, \$2.6 million, \$1.9 million, and \$1.6 million, respectively. Some of these services are partially supported by State and Federal grants, with the remaining cost funded by general revenue sources of the General Fund.

The Revenue Sharing Reserve Fund is used to account for the accelerated property tax collections which replaced State Revenue Sharing beginning in the year 2005. During 2007, no further transfers were made into the fund, and \$857,640 was transferred out to the General Fund (representing what would have been received in State Revenue Sharing). The remaining balance in the fund at December 31, 2007, was \$2,593,367.

The Senior Center Debt Service Fund was used to account for principal and interest payments on the 2006 Senior Center Bond Issue. Lease payments received from the Senior Center cover these bond payments.

Major Proprietary Funds for the year include the Medical Care Facility Fund and the 2006 Delinquent Tax Revolving Fund.

General Fund Budgetary Highlights

The year ended December 31, 2007 was the first time in five years that the General Fund spent less than the revenue for the year, resulting in a surplus of \$117,821. Much of the turn-around was due to a change in health insurance coverage to health reimbursement accounts (HRA) for approximately 60% of the employees, which saved about \$150,000.

Over the course of the year, the Board of Commissioners amended the budget to take into account unexpected events during the year. A change in accounting software in February, 2007, caused employee benefits to be posted to individual departments instead of a lump sum; therefore, each individual departmental budget was amended. Budgets were also amended to reflect the cost savings of the new health insurance coverage.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At the end of the fiscal year 2007, the County had approximately \$14,557,455 (net of depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, equipment, etc. Details of the County's capital assets are contained in the notes to the financial statements. Major increases for the year included the Medical Care Facility addition and the Courthouse Elevator project (both completed in the spring of 2008)

The County continues to pay down debt obligations related to capital investments, although there was \$600,000 in new debt added during 2007 for the Courthouse Elevator project. At December 31, 2007, debt related to capital assets of governmental activities totaled \$4,223,684. Debt related to business-type activities totaled \$13,780,000, most of which relates to the Medical Care Facility.

Economic Factors and Next Year's Budgets and Rates

The economy continues to struggle, both locally and nationally. Of major concern this year is the decline in residential property values due to the poor housing market. Agricultural land continues to flourish, but this represents only 25% of the County's tax base. The County budgeted for a 4% growth in taxable value for 2008, but only experienced 2.3% growth. The 2009 budget will project zero growth, which will present a challenge for individual departmental budgets. The savings from health insurance changes will continue as more employee groups are added to the HRA plan, but this may not be enough to offset the expected lack of revenue growth.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the County Treasurer's office at 29 North Howell Street, Hillsdale.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Assets

December 31, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 5,026,799	\$ 6,478,103	\$ 11,504,902	\$ 1,014,880
Receivables, net	4,565,588	5,473,199	10,038,787	1,130,877
Internal balances	-	-	-	-
Prepaid items and other assets	-	8,662	8,662	791,657
Capital assets not being depreciated	330,003	6,992,170	7,322,173	4,502,480
Capital assets being depreciated, net	4,236,645	2,998,637	7,235,282	24,930,134
Total assets	14,159,035	21,950,771	36,109,806	32,370,028
Liabilities				
Accounts payable and accrued expenses	595,035	2,328,093	2,923,128	892,187
Unearned revenue	1,552,001	793,551	2,345,552	-
Long-term liabilities:				
Due within one year	380,862	2,320,000	2,700,862	81,000
Due in more than one year	3,842,822	11,460,000	15,302,822	297,403
Total liabilities	6,370,720	16,901,644	23,272,364	1,270,590
Net assets				
Invested in capital assets, net of related debt	2,680,367	220,807	2,901,174	29,432,614
Restricted for:				
Debt service	566	-	566	-
Endowments and trusts	3,161	-	3,161	-
Other purposes	3,384,442	595,806	3,980,248	-
Unrestricted	1,719,779	4,232,514	5,952,293	1,666,824
Total net assets	\$ 7,788,315	\$ 5,049,127	\$ 12,837,442	\$ 31,099,438

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities
For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 132,541	\$ -	\$ -	\$ -	\$ (132,541)
Judicial	1,939,080	721,123	1,173,305	-	(44,652)
General government	3,755,502	641,306	350,016	-	(2,764,180)
Public safety	3,706,083	516,370	418,149	-	(2,771,564)
Public works	20,086	-	-	-	(20,086)
Health and welfare	2,746,986	245,614	778,205	-	(1,723,167)
Recreation and cultural	65,670	36,471	26,359	-	(2,840)
Other governmental activities	1,332,678	16,209	17,886	-	(1,298,583)
Interest on long-term debt	12,970	-	-	-	(12,970)
Total governmental activities	<u>13,711,596</u>	<u>2,177,093</u>	<u>2,763,920</u>	-	<u>(8,770,583)</u>
Business-type activities:					
Medical Care Facility	13,291,472	10,941,809	3,491,764	-	1,142,101
Delinquent tax collections/forfeitures	1,237,626	807,631	1,012,501	-	582,506
Emergency services	799,135	700,003	49,471	-	(49,661)
Geographic information services	30,328	3,051	6,875	-	(20,402)
Board of Public Works	307,178	22	307,145	-	(11)
Total business-type activities	<u>15,665,739</u>	<u>12,452,516</u>	<u>4,867,756</u>	-	<u>1,654,533</u>
 Total primary government	 <u>\$ 29,377,335</u>	 <u>\$ 14,629,609</u>	 <u>\$ 7,631,676</u>	 <u>\$ -</u>	 <u>\$ (7,116,050)</u>
Component units					
County Drains	\$ 425,750	\$ 162,785	\$ 212,300	\$ -	\$ (50,665)
County Roads	<u>7,427,907</u>	<u>1,801,051</u>	<u>5,727,818</u>	-	<u>100,962</u>
 Total component units	 <u>\$ 7,853,657</u>	 <u>\$ 1,963,836</u>	 <u>\$ 5,940,118</u>	 <u>\$ -</u>	 <u>\$ 50,297</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2007

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (8,770,583)	\$ 1,654,533	\$ (7,116,050)	\$ 50,297
General revenues:				
Property taxes	7,472,799	-	7,472,799	-
Unrestricted investment earnings	330,785	-	330,785	64,741
Transfers - internal activities	666,236	(666,236)	-	-
Total general revenues and transfers	8,469,820	(666,236)	7,803,584	64,741
Change in net assets	(300,763)	988,297	687,534	115,038
Net assets, beginning of year	8,089,078	4,060,830	12,149,908	30,984,400
Net assets, end of year	<u>\$ 7,788,315</u>	<u>\$ 5,049,127</u>	<u>\$ 12,837,442</u>	<u>\$ 31,099,438</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

**Balance Sheet
Governmental Funds
December 31, 2007**

	General	Revenue Sharing Reserve	Senior Center Debt Service	Nonmajor Funds	Totals
Assets					
Cash and cash equivalents	\$ 647,008	\$ 2,589,246	\$ 113	\$ 1,738,558	\$ 4,974,925
Taxes receivable	621,198	-	-	1,173,928	1,795,126
Accounts receivable	120,724	-	1,990,000	33,418	2,144,142
Grants receivable	200,435	-	-	37,481	237,916
Advance to component unit	357,968	-	-	-	357,968
Interest receivable	21,409	4,121	-	4,906	30,436
 <u>TOTAL ASSETS</u>	 \$ 1,968,742	 \$ 2,593,367	 \$ 1,990,113	 \$ 2,988,291	 \$ 9,540,513
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 151,408	\$ -	\$ -	\$ 212,958	\$ 364,366
Accrued expenditures	97,194	-	-	13,434	110,628
Due to other governments	-	-	-	58,000	58,000
Deferred revenue	378,073	-	1,990,000	1,173,928	3,542,001
 Total liabilities	 626,675	 -	 1,990,000	 1,458,320	 4,074,995
 Fund balances					
Reserved for advances	357,968	-	-	-	357,968
Reserved for family counseling	20,584	-	-	-	20,584
Unreserved:					
Undesignated	963,515	2,593,367	113	-	3,556,995
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	791,075	791,075
Debt service funds	-	-	-	473	473
Capital projects funds	-	-	-	735,262	735,262
Permanent funds	-	-	-	3,161	3,161
 Total fund balances	 1,342,067	 2,593,367	 113	 1,529,971	 5,465,518
 <u>TOTAL LIABILITIES AND FUND BALANCES</u>	 \$ 1,968,742	 \$ 2,593,367	 \$ 1,990,113	 \$ 2,988,291	 \$ 9,540,513

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2007

Fund balances - total governmental funds	\$ 5,465,518
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	330,003
---	---------

Add: capital assets being depreciated, net	4,236,645
--	-----------

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets, such as certain receivables, are offset by deferred revenue in the governmental funds.

Add: deferred loans receivable	1,990,000
--------------------------------	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	29,161
---	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and leases payable	(3,876,281)
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Subtract: compensated absences	(347,403)
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Subtract: accrued interest on long-term liabilities	(39,328)
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Net assets of governmental activities	<u><u>\$ 7,788,315</u></u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Revenue Sharing Reserve	Senior Center Debt Service	Nonmajor Funds	Totals
Revenue					
Taxes and special assessments	\$ 6,414,219	\$ -	\$ -	\$ 1,058,580	\$ 7,472,799
Intergovernmental	1,568,705	-	-	68,102	1,636,807
Licenses and permits	64,881	-	-	-	64,881
Contributions	-	-	159,516	167,332	326,848
Fines and forfeits	359,696	-	-	85,964	445,660
Charges for services	942,975	-	-	465,803	1,408,778
Reimbursements and refunds	448,869	-	-	74,035	522,904
Interest and rentals	585,481	6,646	-	50,834	642,961
Other revenue	-	-	-	731,676	731,676
Total revenue	10,384,826	6,646	159,516	2,702,326	13,253,314
Expenditures					
Current:					
Legislative	132,541	-	-	-	132,541
Judicial	1,921,824	-	-	12,659	1,934,483
General government	2,677,772	-	-	995,388	3,673,160
Public safety	3,180,574	-	-	504,107	3,684,681
Public works	20,086	-	-	-	20,086
Health and welfare	446,253	-	-	2,456,542	2,902,795
Recreation and cultural	-	-	-	65,670	65,670
Other	2,324,483	-	-	-	2,324,483
Capital outlay	210,980	-	-	-	210,980
Debt service:					
Principal	-	-	75,000	95,000	170,000
Interest	-	-	84,403	72,332	156,735
Total expenditures	10,914,513	-	159,403	4,201,698	15,275,614
Revenue over (under) expenditures	(529,687)	6,646	113	(1,499,372)	(2,022,300)
Other financing sources (uses)					
Proceeds from issuance of debt	61,831	-	-	600,000	661,831
Transfers in	1,326,375	-	-	947,405	2,273,780
Transfers (out)	(740,698)	(857,640)	-	(9,206)	(1,607,544)
Total other financing sources (uses)	647,508	(857,640)	-	1,538,199	1,328,067
Net change in fund balances	117,821	(850,994)	113	38,827	(694,233)
Fund balances, beginning of year	1,224,246	3,444,361	-	1,491,144	6,159,751
Fund balances, end of year	\$ 1,342,067	\$ 2,593,367	\$ 113	\$ 1,529,971	\$ 5,465,518

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds	\$ (694,233)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,118,679
Subtract: depreciation expense	(219,430)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Subtract: payments received on deferred long-term receivables	(75,000)
---	----------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Subtract: capital lease and installment purchase proceeds	(661,831)
Add: principal payments on bonds	170,000
Add: principal payments on capital leases	51,875

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: increase in accrued interest on bonds	(12,970)
Add: decrease in the accrual of compensated absences	17,361

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities:

Add: net operating income from governmental activities accounted for in the internal service fund	4,786
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Change in net assets of governmental activities	\$ (300,763)
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes				
Property taxes	\$ 6,443,600	\$ 6,553,600	\$ 6,414,219	\$ (139,381)
Intergovernmental				
Juvenile Officer's Grant	28,000	28,000	27,317	(683)
Judges Salaries Grant	231,367	231,367	231,367	-
Juror Compensation Grant	3,000	3,000	7,618	4,618
Liquor Tax	96,200	96,200	47,779	(48,421)
Secondary Road Patrol Grant	104,604	104,604	104,964	360
Marine Safety Grant	21,103	21,103	33,349	12,246
Emergency Management Grant	4,000	4,000	6,857	2,857
Narcotics Grant	19,400	19,400	15,891	(3,509)
Drunk Driving Grant	16,400	16,400	13,518	(2,882)
Cigarette Tax Distribution	22,694	22,694	22,454	(240)
Prosecutor - Cooperative Reimbursement Program	64,000	64,000	56,651	(7,349)
FOC - Cooperative Reimbursement Program	434,000	434,000	367,943	(66,057)
FOC - Other	122,000	122,000	94,412	(27,588)
Survey and Remonumentation Grant	47,880	77,790	77,787	(3)
State court equity funding	250,000	250,000	250,634	634
Community Development	-	-	140,437	140,437
Elections	30,000	30,000	28,287	(1,713)
Other intergovernmental revenue	47,135	47,135	41,440	(5,695)
Total intergovernmental	1,541,783	1,571,693	1,568,705	(2,988)
Licenses and permits				
Dog licenses	62,000	62,000	58,270	(3,730)
Other licenses and permits	17,400	17,400	6,611	(10,789)
Total licenses and permits	79,400	79,400	64,881	(14,519)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue (continued)				
Fines and forfeits				
Ordinance fines and costs	\$ 380,000	\$ 380,000	\$ 332,492	\$ (47,508)
Bond forfeitures	38,200	38,200	27,204	(10,996)
Total fines and forfeits	418,200	418,200	359,696	(58,504)
Charges for services				
Circuit Court	57,300	57,300	57,157	(143)
District Court	140,000	140,000	126,894	(13,106)
Friend of the Court	80,100	80,100	81,312	1,212
Probate/Family Court	21,100	21,100	14,907	(6,193)
Clerk	54,000	54,000	54,245	245
Register of deeds	380,000	394,000	369,747	(24,253)
Sheriff	102,630	102,630	86,023	(16,607)
Equalization	99,000	99,000	83,444	(15,556)
Other charges for services	85,700	85,700	69,246	(16,454)
Total charges for services	1,019,830	1,033,830	942,975	(90,855)
Interest and rentals				
Interest revenue	180,000	180,000	324,139	144,139
Rents	266,628	266,628	257,774	(8,854)
Other revenue	-	-	3,568	3,568
Total interest and rentals	446,628	446,628	585,481	138,853
Other revenue/reimbursements				
Reimbursements and refunds	535,995	555,995	448,869	(107,126)
Total revenue	10,485,436	10,659,346	10,384,826	(274,520)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures				
Legislative				
Board of Commissioners	\$ 122,340	\$ 134,785	\$ 132,541	\$ (2,244)
Judicial				
Circuit Court	179,574	192,449	175,857	(16,592)
District Court	460,410	523,230	518,981	(4,249)
Friend of the Court	429,025	477,855	453,827	(24,028)
Law Library	2,000	2,300	2,932	632
Jury Commission	4,200	4,255	3,007	(1,248)
Probate Court	541,727	588,112	565,369	(22,743)
Family/Juvenile Court	190,700	207,700	201,851	(5,849)
Total judicial	1,807,636	1,995,901	1,921,824	(74,077)
General government				
Elections	36,500	38,140	34,810	(3,330)
Clerk	241,926	277,398	276,642	(756)
Register of deeds	125,672	139,992	138,552	(1,440)
Planning	4,000	4,000	1,740	(2,260)
Equalization	184,680	209,992	208,712	(1,280)
Information technology	220,645	311,030	295,799	(15,231)
Prosecutor	355,709	406,609	401,478	(5,131)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
General government (concluded)				
Survey & Remonumentation	\$ 47,880	\$ 77,790	\$ 77,787	\$ (3)
Treasurer	255,378	286,648	267,317	(19,331)
MSU Extension	191,939	204,290	192,818	(11,472)
Courthouse and grounds	295,345	319,880	292,322	(27,558)
FOC Building	33,816	34,786	32,104	(2,682)
DHS Building	82,061	92,496	92,869	373
Broad Street Property	19,000	19,000	21,083	2,083
Drain Commissioner	149,630	199,965	191,456	(8,509)
Community development	-	-	140,437	140,437
Bus Garage	10,000	11,500	11,846	346
Total general government	2,254,181	2,633,516	2,677,772	44,256
Public safety				
Sheriff's Department	1,701,128	1,797,892	1,781,684	(16,208)
Secondary Road Patrol Grant	145,005	146,005	145,372	(633)
Camden Patrol	18,160	18,160	12,142	(6,018)
Marine Patrol	32,374	34,374	31,701	(2,673)
Narcotics enforcement	69,510	77,510	78,413	903
Universal hiring	194,559	204,559	202,442	(2,117)
Operation Spotlight	16,000	17,232	12,432	(4,800)
Jail Operation	802,692	838,312	818,335	(19,977)
Inmate work program	8,000	8,000	6,125	(1,875)
Youth alcohol	12,475	14,475	12,532	(1,943)
Emergency Preparedness	44,620	48,525	49,208	683
Animal control	21,280	22,490	21,938	(552)
Lifescan	-	8,250	8,250	-
Total public safety	3,065,803	3,235,784	3,180,574	(55,210)
Public works				
Board of Public Works	19,943	22,460	20,086	(2,374)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Health and welfare				
Health Department	\$ 44,348	\$ 49,693	\$ 48,953	\$ (740)
Medical Examiner	55,160	56,225	41,289	(14,936)
Veteran's Burial	17,100	17,100	9,877	(7,223)
Veteran's Affairs Office	52,018	61,303	61,974	671
District Health Department	286,635	286,635	284,160	(2,475)
Total health and welfare	455,261	470,956	446,253	(24,703)
Other				
Employee Benefits	2,414,000	1,730,222	1,609,456	(120,766)
Property/Liability Insurance	276,000	276,000	223,743	(52,257)
Other	434,691	344,191	352,784	8,593
Appropriations	190,737	190,937	138,500	(52,437)
Total other	3,315,428	2,350,413	2,324,483	(25,930)
Capital outlay	103,192	126,192	210,980	84,788
Total expenditures	11,143,784	10,970,007	10,914,513	(55,494)
Revenue under expenditures	(658,348)	(310,661)	(529,687)	(219,026)
Other financing sources (uses)				
Proceeds from capital lease	-	-	61,831	61,831
Transfers in	(1,367,640)	(1,367,640)	1,326,375	2,694,015
Transfers (out)	715,699	765,699	(740,698)	(1,506,397)
Total other financing sources (uses)	(651,941)	(601,941)	647,508	1,249,449
Net change in fund balances	(1,310,289)	(912,602)	117,821	1,030,423
Fund balance, beginning of year	1,224,246	1,224,246	1,224,246	-
Fund balance, end of year	<u>\$ (86,043)</u>	<u>\$ 311,644</u>	<u>\$ 1,342,067</u>	<u>\$ 1,030,423</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ 50,000	\$ 50,000	\$ -	\$ (50,000)
Interest revenue	-	-	6,646	6,646
	<u>50,000</u>	<u>50,000</u>	<u>6,646</u>	<u>(43,354)</u>
Expenditures				
General government	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue over (under) expenditures	50,000	50,000	6,646	(50,000)
Other financing sources (uses)				
Transfers out	(857,640)	(857,640)	(857,640)	-
	<u>(857,640)</u>	<u>(857,640)</u>	<u>(857,640)</u>	<u>-</u>
Net changes in fund balances	(807,640)	(807,640)	(850,994)	(50,000)
Fund balances, beginning of year	<u>3,444,361</u>	<u>3,444,361</u>	<u>3,444,361</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,636,721</u>	<u>\$ 2,636,721</u>	<u>\$ 2,593,367</u>	<u>\$ (50,000)</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2007

	Enterprise Funds				Internal Service
		2006			
	Medical Care Facility	Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Assets					
Current assets:					
Cash and cash equivalents	\$ 4,536,987	\$ 715,465	\$ 1,225,651	\$ 6,478,103	\$ 51,874
Taxes receivable	793,551	1,188,908	240,603	2,223,062	-
Accounts receivable	1,314,151	-	41,376	1,355,527	-
Interest receivable	58,180	-	6,430	64,610	-
Current portion of leases receivable	-	-	230,000	230,000	-
Other assets	8,662	-	-	8,662	-
Total current assets	6,711,531	1,904,373	1,744,060	10,359,964	51,874
Noncurrent assets:					
Leases receivable, net of current portion	-	-	1,600,000	1,600,000	-
Capital assets not being depreciated	6,992,170	-	-	6,992,170	-
Capital assets being depreciated, net	2,973,649	-	24,988	2,998,637	-
Total noncurrent assets	9,965,819	-	1,624,988	11,590,807	-
Total assets	16,677,350	1,904,373	3,369,048	21,950,771	51,874
Liabilities					
Current liabilities:					
Accounts payable	1,477,747	-	61,805	1,539,552	22,713
Accrued liabilities	725,678	-	8,348	734,026	-
Due to other governments	-	-	54,515	54,515	-
Unearned revenue	793,551	-	-	793,551	-
Current portion of long-term debt	390,000	1,300,000	630,000	2,320,000	-
Total current liabilities	3,386,976	1,300,000	754,668	5,441,644	22,713
Long-term liabilities:					
Due in more than one year	9,380,000	480,000	1,600,000	11,460,000	-
Total liabilities	12,766,976	1,780,000	2,354,668	16,901,644	22,713
Net assets					
Invested in capital assets, net of related debt	195,819	-	24,988	220,807	-
Restricted by statute	-	-	595,806	595,806	-
Unrestricted	3,714,555	124,373	393,586	4,232,514	29,161
Total net assets	\$ 3,910,374	\$ 124,373	\$ 1,014,380	\$ 5,049,127	\$ 29,161

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007

	Enterprise Funds				Internal Service
	Medical Care Facility	2006 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Operating revenue					
Charges for services	\$ 10,941,809	\$ 86,675	\$ 1,064,629	\$ 12,093,113	\$ -
Refunds and reimbursements	-	-	10,167	10,167	-
Contributions	810,391	-	1,012,500	1,822,891	-
Other operating revenue	1,620,619	-	353,324	1,973,943	91,283
Total operating revenue	13,372,819	86,675	2,440,620	15,900,114	91,283
Operating expense					
Depreciation expense	290,782	-	23,406	314,188	-
Cost of services	12,377,532	19,368	2,279,912	14,676,812	86,497
Total operating expense	12,668,314	19,368	2,303,318	14,991,000	86,497
Operating income	704,505	67,307	137,302	909,114	4,786
Nonoperating revenue (expenses)					
Property tax revenue	690,221	-	-	690,221	-
Interest and rentals	370,533	96,377	263,027	729,937	-
Interest expense	(623,158)	(39,311)	(12,270)	(674,739)	-
Total nonoperating revenue	437,596	57,066	250,757	745,419	-
Income before transfers	1,142,101	124,373	388,059	1,654,533	4,786
Transfers in (out)					
Transfers in	-	-	2,500	2,500	-
Transfers (out)	-	-	(668,736)	(668,736)	-
Total transfers	-	-	(666,236)	(666,236)	-
Change in net assets	1,142,101	124,373	(278,177)	988,297	4,786
Net assets, beginning of year	2,768,273	-	1,292,557	4,060,830	24,375
Net assets, end of year	\$ 3,910,374	\$ 124,373	\$ 1,014,380	\$ 5,049,127	\$ 29,161

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2007

	Enterprise Funds				Internal Service
	2006 Delinquent				
	Medical Care Facility	Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Cash flows from operating activities					
Cash received from customers	\$ 11,821,272	\$ 2,651,720	\$ 3,511,517	\$ 17,984,509	\$ 91,283
Cash received from Quality Assurance Supplement	1,574,244	-	-	1,574,244	-
Other operating receipts	1,620,619	-	-	1,620,619	-
Cash payments to suppliers and employees for goods and services	(13,267,677)	(3,773,321)	(2,192,892)	(19,233,890)	(85,607)
Net cash provided by (used in) operating activities	1,748,458	(1,121,601)	1,318,625	1,945,482	5,676
Cash flows from noncapital financing activities					
Property tax revenue	690,221	-	-	690,221	-
Proceeds from tax notes	-	2,580,000	-	2,580,000	-
Tax notes redeemed	-	(800,000)	(1,600,000)	(2,400,000)	-
Transfers in	-	-	2,500	2,500	-
Transfers (out)	-	-	(668,736)	(668,736)	-
Net cash provided (used) by non-capital financing activities	690,221	1,780,000	(2,266,236)	203,985	-
Cash flows from capital and related financing activities					
Purchase of capital assets	(5,837,835)	-	-	(5,837,835)	-
Interest payments	(623,158)	(39,311)	(26,752)	(689,221)	-
Principal payments	(330,000)	-	(1,340,000)	(1,670,000)	-
Proceeds from long-term debt	-	-	1,140,000	1,140,000	-
Net cash provided (used) by capital and related financing activities	(6,790,993)	(39,311)	(226,752)	(7,057,056)	-
Cash flows from investing activities					
Interest and rental earnings	370,533	96,377	263,027	729,937	-
Amounts collected on leases receivable	-	-	134,482	134,482	-
Net cash provided by investing activities	370,533	96,377	397,509	864,419	-
Net increase (decrease) in cash and cash equivalents	(3,981,781)	715,465	(776,854)	(4,043,170)	5,676
Cash and cash equivalents, beginning of year	8,518,768	-	2,002,505	10,521,273	46,198
Cash and cash equivalents, end of year	<u>\$ 4,536,987</u>	<u>\$ 715,465</u>	<u>\$ 1,225,651</u>	<u>\$ 6,478,103</u>	<u>\$ 51,874</u>

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2006

	2006 Delinquent				Internal Service
	Medical Care Facility	Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Cash flows from operating activities					
Operating income (loss)	\$ 704,505	\$ 67,307	\$ 137,302	\$ 909,114	\$ 4,786
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	290,782	-	23,406	314,188	-
(Increase) decrease in:					
Taxes receivable	(70,101)	(1,188,908)	1,008,712	(250,297)	-
Accounts receivable	69,072	-	69,635	138,707	-
Lease receivable					
Interest receivable	(53,199)			(53,199)	
Due from other governments	-	-	-	-	-
Inventory	-	-			
Prepaid expenses	134,251	-	(1,072)	133,179	-
Increase (decrease) in:					
Accounts payable	637,526	-	80,642	718,168	890
Accrued expenses	35,622	-	-	35,622	-
Net cash provided (used) by operating activities	\$ 1,748,458	\$ (1,121,601)	\$ 1,318,625	\$ 1,945,482	\$ 5,676

Non-cash transactions

There were no non-cash transactions during the fiscal year.

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2007

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u><u>\$ 648,889</u></u>
Liabilities	
Due to other governments	197,212
Undistributed receipts	<u>451,677</u>
Total liabilities	<u><u>\$ 648,889</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2007

	Drain Commission	Road Commission	Total
Assets			
Cash and cash equivalents	\$ 447,743	\$ 567,137	\$ 1,014,880
Special assessments receivable	285,369	-	285,369
Receivables, net	2,064	843,444	845,508
Prepaid items and other assets	-	791,657	791,657
Capital assets:			
Capital assets not being depreciated	-	4,502,480	4,502,480
Capital assets being depreciated, net	826,659	24,103,475	24,930,134
Total assets	1,561,835	30,808,193	32,370,028
Liabilities			
Accounts payable and accrued expenses	-	313,813	313,813
Notes payable (short term)	-	220,406	220,406
Advances from primary government	357,968	-	357,968
Long-term liabilities:			
Due within one year	11,000	70,000	81,000
Due in more than one year	-	297,403	297,403
Total liabilities	368,968	901,622	1,270,590
Net assets			
Invested in capital assets, net of related debt	826,659	28,605,955	29,432,614
Unrestricted	366,208	1,300,616	1,666,824
Total net assets	\$ 1,192,867	\$ 29,906,571	\$ 31,099,438

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2007

	Drain Commission	Road Commission	Total
Expenses			
County Drains	\$ 425,750	\$ -	\$ 425,750
County Roads	-	7,427,907	7,427,907
Total expenses	425,750	7,427,907	7,853,657
Program revenues			
Charges for services	162,785	1,801,051	1,963,836
Operating grants and contributions	212,300	5,727,818	5,940,118
Total program revenues	375,085	7,528,869	7,903,954
Net revenue (expense)	(50,665)	100,962	50,297
General revenues			
Unrestricted investment earnings	16,986	47,755	64,741
Change in net assets	(33,679)	148,717	115,038
Net assets, beginning of year	1,226,546	29,757,854	30,984,400
Net assets, end of year	\$ 1,192,867	\$ 29,906,571	\$ 31,099,438

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

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Notes to the Financial Statements

For the Year Ended December 31, 2007

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COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

A. Reporting entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units

A blended component unit is a legally separate entity from the local governmental unit, but is so intertwined with the Unit that it is, in substance, the same as the local governmental unit. It is reported as part of the local governmental unit and blended into the appropriate fund types.

Hillsdale County Medical Care Facility

The Hillsdale County Medical Care Facility provides skilled long-term care to residents of the County and is not considered legally separate from the County; therefore, it has been included in the County's basic financial statements as an Enterprise Fund. The complete financial statements may be obtained by contacting:

Hillsdale County Medical Care Facility
140 W. Mechanic Street
Hillsdale, MI 49242
(517) 439-9341

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Building Authority

The Hillsdale County Building Authority is governed by a five-member board appointed by the Hillsdale County Board of Commissioners. Although it is legally separate from Hillsdale County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Department of Public Works

Pursuant to Act 185 of 1957 (MCL 123.732, as amended) the County entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the County Board of Commissioners.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the government-wide financial statements. The discretely presented component unit is an entity that is legally separate from Hillsdale County, but for which the County is financially accountable, or its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

Hillsdale County Road Commission

The County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund.

The Hillsdale County Road Commission has a separately issued audit report. Complete financial statements of the component unit can be obtained from its respective administrative offices or from the Clerk's Office:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Hillsdale County Road Commission
1919 Hudson Road
Hillsdale, Michigan 49242

Hillsdale County Drain Commission

Each of the drainage districts established pursuant to the Drain Code of 1956 are separate legal entities, with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property, etc. The statutory drainage board of Chapter 20 (MCL 280.461 et seq.) drainage districts consists of the drain commissioners, the chairperson of the county board of commissioners, and one other member of the board of commissioners. The statutory drainage board of Chapter 5 (MCL 280.101 et seq.) and Chapter 6 (MCL 280.121 et seq.) drainage districts consists of the State Director of Agriculture and the drain commissioners of each county involved in the project. The county drain commissioner has sole responsibility to administer the drainage district established pursuant to Chapter 3 (MCL 280.51 et seq.) and Chapter 4 (MCL 280.71 et seq.) of the Drain Code. The drainage board or drain commissioners, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the county board of commissioners. The full faith and credit of the County may be given for the debt of the drainage district. There is created for each project petitioned for under the provisions of the Chapter 21 (MCL 280.511 et seq.) drainage districts, an augmented drainage board to consist of the members of the drainage board together with the chairman of the board of supervisors and the chairman of the board of county auditors of each county involved. The statutory drainage board of Chapter 8 (MCL 280.191 et seq.) drainage districts consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

Related Organizations

LifeWays

Hillsdale County and Jackson County entered into an agreement pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205), to create the Jackson-Hillsdale Mental Health Authority, which later became known as “LifeWays”. LifeWays is a legally separate organization established to provide mental health services to residents of the counties.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

It is governed by a twelve (12) member board, including four (4) from Hillsdale County and eight (8) from Jackson County. The County's accountability does not extend beyond this representation and making these appointments. The board may borrow money and issue bonds pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205). LifeWays indemnifies and holds harmless the participating counties from all claims and liabilities.

Branch Hillsdale St Joseph District I Health Department

Hillsdale County participates jointly with Branch and St. Joseph Counties in the operation of the Branch, Hillsdale, St. Joseph District I Health Department. All of the financial operations of the District Health Department are recorded in the records of Branch County. It is governed by a seven (7) member board, two (2) from Hillsdale County, two (2) from Branch County, and three (3) from St. Joseph County. The funding formula approved by the members of the county boards of commissioners is based pro rata on each county's population. The current funding formula approved by the District Health Board requires Hillsdale, Branch and St. Joseph Counties to provide 30.1, 29.6, and 40.3 percent, respectively. Hillsdale County's appropriation to the District Health Department for the calendar year ended December 31, 2007, was \$284,160.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, State revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *revenue sharing reserve fund* accounts for accelerated property tax collections which are held for the replacement of future State shared revenues.

The *Senior Center debt service fund* is used to account for financial resources to refund the debt of the Senior Citizens Center.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The County reports the following major proprietary funds:

The *Medical Care Facility fund* is used to account for the operation of the Hillsdale County Medical Care Facility. Financing is provided through charges for services, Medicare and Medicaid reimbursements, and general fund appropriations.

The *2006 delinquent tax revolving fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing units within the County, and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the County's issuance of debt (to provide cash flow for the purchase of the taxes) and for the resulting debt service payments.

Additionally, the County reports the following fund types:

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

Debt service funds account for the servicing of general long-term debt not being financed by proprietary funds.

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs, including programs for a cemetery, the MCF, and a trust.

Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The *internal service fund* accounts for operations that provide the accounting for workers' compensation insurance to other departments or agencies of the County on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: a) short-term investments are reported at cost, which approximates fair value; b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; c) investments that do not have established market values are reported at estimated fair value; and d) cash deposits are reported at carrying amount, which reasonably approximates fair value.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

2. Receivables and payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds or component units are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

3. Inventories and prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Infrastructure for the Road Commission and Drain Commission component units has been capitalized back to 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Equipment	10-25
Vehicles	5-10

Capital assets in the Road Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings and		
Improvements	Straight-line	40
Road equipment	Sum of years-digits	5-8
Other equipment	Straight-line	5-8
Infrastructure	Straight-line	8-50

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Capital assets in the Drain Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings	Straight-line	25
Equipment	Straight-line	5-10
Infrastructure	Straight-line	50

5. *Compensated absences*

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, upon termination of employment, individual employees have vested rights to receive payment or unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. Vacation pay that has matured, such as due to employee resignations or retirements, is reported as an expenditure and a fund liability of the governmental fund that will pay it for employees retiring.

6. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end.

The Finance Committee receives the preliminary budget requests from departmental heads in September. A proposed operating budget for the fiscal year beginning the following January 1 is submitted to the Board of Commissioners in October. Public hearings are conducted to obtain taxpayer comments. The budget is formally adopted by resolution at the December Board of Commissioners' meeting. Any revisions to the budget must be approved by the Board of Commissioners. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners during the year.

The legal level of budgetary control is the activity level for the General Fund and the function level for the special revenue funds. The Board of Commissioners made several supplemental budgetary appropriations during the year which were not considered material.

Encumbrance accounting is not employed by the County because it is presently considered unnecessary to reasonably assure budgetary control.

B. Excess of expenditures over appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the County were adopted on an activity level for the general fund and a functional level basis for the special revenue funds.

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General and Revenue Sharing Reserve Funds.

C. Fund deficit

At December 31, 2007, there is a deficit in the Drain Special Assessment fund of the Drain Commission component unit in the amount of \$70,786. The County plans to eliminate this deficit by the collection of future special assessments.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements is as follows:

Cash on hand	\$ 6,390
Carrying amount of deposits	10,424,873
Carrying amount of investments	<u>2,737,408</u>
	<u>\$ 13,168,671</u>

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 11,504,902</u>	<u>\$ 1,014,880</u>	<u>\$ 648,889</u>	<u>\$ 13,168,671</u>

Deposits and investments

The County chooses to disclose its investments by specific identification. As of year end, the County had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Monarch Bank money markets	n/a	\$ 551,552	n/a
Federal Home Loan Mtg. Corp	09/15/09	98,788	S&P – AAAm
Federal Home Loan Bank	09/30/08	133,139	S&P – AAAm
Federal Nat. Mtg. Assn.	10/24/14	100,000	S&P – AAAm
Federal Home Loan Mtg. Corp	12/24/18	497,969	S&P – AAAm
Federal Home Loan Bank	04/10/12	250,000	S&P – AAAm
Federal Home Loan Mtg. Corp	07/15/13	200,000	S&P – AAAm
Federal Home Loan Bank	08/28/09	200,000	S&P – AAAm
Federal Home Loan Bank	12/11/09	200,000	S&P – AAAm
G.E. Commercial Paper	02/13/08	<u>505,960</u>	S&P – A-1+
		<u>\$ 2,737,408</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities for each investment are identified above for investments held at year end.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$6,719,569 of the County's bank balance of \$10,873,195 was exposed to custodial credit risk because it was uninsured.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The County's investment policy limits investments to those types of securities allowed by state statutes as listed in Note I above and pre-qualifies the financial institutions, broker/dealers, intermediaries and advisors with which the County does business in accordance with this policy. None of the investments above are subject to custodial credit risk since they are held in the name of the County.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year- end are reported above.

B. Receivables

Receivables in the governmental activities are as follows:

Taxes	\$ 1,795,126
Accounts	154,142
Loans	1,990,000
Due from other governments	237,916
Advance to component unit	357,968
Interest	<u>30,436</u>
	<u>\$ 4,565,588</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

\$1,910,000 of the loans receivable and \$357,968 of the advance to component unit is not expected to be collected within one year.

Receivables in the business-type activities are as follows:

Taxes	\$ 2,223,062
Accounts	1,355,527
Due from other governmental units	1,830,000
Interest	<u>64,610</u>
	<u>\$ 5,473,199</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, unearned revenue reported in the government-wide financial statement for governmental activities represent uncollected taxes from the Summer and Winter 2007 tax levies that are earmarked for the County fiscal year of 2008.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended December 31, 2007 was as follows:

Primary government

	January 1, 2007	Additions	Deletions	December 31, 2007
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 330,003	\$ -	\$ -	\$ 330,003
Capital assets being depreciated:				
Buildings and improvements	5,396,229	944,679	-	6,340,908
Vehicles and equipment	1,069,614	174,000	13,860	1,229,754
Total capital assets being depreciated	6,465,843	1,118,679	13,860	7,570,662
Less accumulated depreciation for:				
Buildings and improvements	(2,423,599)	(110,127)	-	(2,533,726)
Vehicles and equipment	(704,848)	(109,303)	13,860	(800,291)
Total accumulated depreciation	(3,128,447)	(219,430)	13,860	(3,334,017)
Total capital assets being depreciated, net	3,337,396	899,249	-	4,236,645
Governmental activities capital assets, net	\$ 3,667,399	\$ 899,249	\$ -	\$ 4,566,648
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,236,683	\$ 5,755,487	\$ -	\$ 6,992,170
Capital assets being depreciated:				
Land improvements	29,524	-	-	29,524
Buildings and improvements	6,579,985	48,844	-	6,628,829
Vehicles and equipment	1,197,612	33,504	-	1,231,116
Total capital assets being depreciated	7,807,121	82,348	-	7,889,469
Less accumulated depreciation for:				
Land improvements	(29,524)	-	-	(29,524)
Buildings and improvements	(3,504,096)	(232,521)	-	(3,736,617)
Vehicles and equipment	(1,043,024)	(81,667)	-	(1,124,691)
Total accumulated depreciation	(4,576,644)	(314,188)	-	(4,890,832)
Total capital assets being depreciated, net	3,230,477	(231,840)	-	2,998,637
Business-type activities capital assets, net	\$ 4,467,160	\$ 5,523,647	\$ -	\$ 9,990,807

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the County as follows:

Governmental activities:

General government	\$ 87,550
Judicial	10,673
Public safety	79,353
Health and welfare	<u>41,854</u>

Total \$ 219,430

Business-type activities:

Medical Care Facility	\$ 290,782
E-911 Emergency	<u>23,406</u>

Total \$ 314,188

Component Unit – Drain Commission

Activity for the Drain Commission for the year ended December 31, 2007, was as follows:

	January 1, 2007	Additions	Deletions	December 31, 2007
Capital assets being depreciated:				
Buildings	\$ 135,000	\$ -	\$ -	\$ 135,000
Equipment	624,006	53,428	-	677,434
Infrastructure	458,635	-	-	458,635
Total capital assets being depreciated	<u>1,217,641</u>	<u>53,428</u>	<u>-</u>	<u>1,271,069</u>
Less accumulated depreciation for:				
Buildings	(43,200)	(5,400)	-	(48,600)
Equipment	(305,053)	(57,221)	-	(362,274)
Infrastructure	(24,364)	(9,172)	-	(33,536)
Total accumulated depreciation	<u>(372,617)</u>	<u>(71,793)</u>	<u>-</u>	<u>(444,410)</u>
Total capital assets being depreciated, net	<u>\$ 845,024</u>	<u>\$ (18,365)</u>	<u>\$ -</u>	<u>\$ 826,659</u>

Depreciation expense was charged to the Public Works Function in the year 2007.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Component Unit – Road Commission

Activity for the Road Commission for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Capital assets not being depreciated:				
Land	\$ 68,434	\$ -	\$ -	\$ 68,434
Land improvements - infrastructure	4,241,290	192,756	-	4,434,046
Subtotal	4,309,724	192,756	-	4,502,480
Capital assets being depreciated:				
Buildings and improvements	2,028,579	-	1,120	\$ 2,027,459
Road equipment	5,533,471	563,201	450,425	5,646,247
Shop equipment	100,613	16,267	1,667	115,213
Office equipment	147,293	-	-	147,293
Engineers' equipment	59,947	2,400	-	62,347
Yard and storage	436,535	-	-	436,535
Depleteable assets	65,400	-	-	65,400
Infrastructure	42,608,893	1,888,574	-	44,497,467
Subtotal	50,980,731	2,470,442	453,212	52,997,961
Accumulated depreciation and depletion				
Buildings and improvements	527,348	61,325	1,120	587,553
Equipment	4,558,244	540,886	317,423	4,781,707
Depleteable assets	62,156	639	-	62,795
Infrastructure	21,740,613	1,721,818	-	23,462,431
Total accumulated depreciation and depletion	26,888,361	2,324,668	318,543	28,894,486
Total capital assets being depreciated - net	24,092,370	145,774	134,669	24,103,475
Governmental activities capital assets - net	\$ 28,402,094	\$ 338,530	\$ 134,669	\$ 28,605,955

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Accounts payable

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts payable	\$ 387,079
Accrued payroll, expenses and deposits	110,628
Due to other governments	58,000
Accrued interest on long-term debt	<u>39,328</u>
Total	<u>\$ 595,035</u>

Accounts payable and accrued liabilities in the business-type activities are as follows:

Accounts payable	\$ 1,539,552
Accrued payroll, expenses and deposits	734,026
Due to other governments	<u>54,515</u>
Total	<u>\$ 2,328,093</u>

E. Interfund receivables, payables and transfers

The County has interfund balances between its funds and component units. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The advances from the General Fund to the Drain and Lake Level Revolving Funds of the Drain Component Unit are used to provide cash flow to those funds until reimbursements from drain assessments are collected.

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 357,968	\$ -
Drain revolving		339,489
Lake level revolving	<u>-</u>	<u>18,479</u>
	<u>\$ 357,968</u>	<u>\$ 357,968</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended December 31, 2007, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 1,326,375	\$ 740,698
Revenue Sharing Reserve	-	857,640
Nonmajor Governmental Funds	947,405	9,206
Nonmajor Proprietary Funds	2,500	668,736
	<u>\$ 2,276,280</u>	<u>\$ 2,276,280</u>

F. Long-term debt

Primary government

Governmental activities

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Governmental activities:				
County Building Authority –				
Buildings	\$95,000 to 170,000	5.25 to 5.70%	2016	<u>\$1,210,000</u>
Capital Improvement	\$75,000 to			
Senior Center Bldng	160,000	4.25 to 4.40%	2025	<u>\$1,990,000</u>

Annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

Year Ended December 31	Principal	Interest	Total
2008	\$ 185,000	\$ 148,272	\$ 333,272
2009	190,000	139,307	329,307
2010	200,000	129,967	329,967
2011	210,000	119,861	329,861
2012	215,000	109,374	324,374
2013-2017	1,120,000	369,315	1,489,315
2018-2022	625,000	163,331	788,331
2023-2025	455,000	29,947	484,947
	<u>\$ 3,200,000</u>	<u>\$ 1,209,374</u>	<u>\$ 4,409,374</u>

The County has the following capital leases and installment purchase contracts:

The government has entered into several lease agreements for financing the acquisition of vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

Capital leases:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2008	\$ 55,669
2009	<u>27,395</u>
Total minimum lease payments	83,064
Less: amount representing interest	<u>(6,783)</u>
Present value of minimum lease payments	<u>\$ 76,281</u>

The County entered into a purchase installment contract for the purchase of the elevator in the new addition in the amount of \$600,000. Installment payments range from \$110,000 to \$130,000 through August 2012 with an interest rate of 4.2%.

Annual payments to maturity are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 160,862	\$ 33,789	\$ 194,651
2009	140,419	22,286	162,705
2010	120,000	15,750	135,750
2011	125,000	10,710	135,710
2012	130,000	5,460	135,460
	<u>\$ 676,281</u>	<u>\$ 87,995</u>	<u>\$ 764,276</u>

Business-type activities

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Business-type activities:				
County Building Authority –				
Medical Care Facility				
Building	\$105,000 to 185,000	4.60 to 4.625%	2018	<u>\$ 1,585,000</u>
Medical Care Facility				
Building	\$150,000 to 695,000	4.00%	2026	<u>\$ 7,850,000</u>
Medical Care Facility				
Building	\$75,000 to 90,000	3.0 to 3.5%	2011	<u>\$ 335,000</u>
Sanitary Sewer – City				
of Litchfield	\$30,000 to 130,000	2.00%	2014	<u>\$ 795,000</u>
Water Supply System –				
Village of Jonesville	\$110,000 to 150,000	3.85 to 4.20%	2015	<u>\$ 1,035,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Principal	Interest	Total
2008	\$ 620,000	\$ 467,571	\$ 1,087,571
2009	655,000	444,146	1,099,146
2010	685,000	417,674	1,102,674
2011	730,000	389,929	1,119,929
2012	675,000	360,594	1,035,594
2013-2017	3,115,000	1,388,832	4,503,832
2018-2022	2,580,000	811,378	3,391,378
2023-2026	2,540,000	262,000	2,802,000
	<u>\$ 11,600,000</u>	<u>\$ 4,542,124</u>	<u>\$ 16,142,124</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

During 2007, Hillsdale County advance refunded a portion of the Village of Jonesville Water Supply System Bonds by issuing \$1,140,000 of Village of Jonesville Water Supply System Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the balance sheet. This advance refunding was undertaken to reduce total debt service payments over the next 9 years by \$63,391 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$56,345.

Delinquent tax notes. The government issues delinquent tax notes to finance the purchase of delinquent real property taxes receivable from each taxing district in the County. These notes are reported in the proprietary funds (i.e., Delinquent Tax Revolving Funds) as they are expected to be repaid from proprietary fund revenues. Principal and interest payments are predicated upon actual collections of delinquent property taxes, which are subject to collection over a period not to exceed three years. Delinquent tax notes outstanding at December 31, 2007, are as follows:

Series

	<u>Amount</u>
2006 - \$2,300,000 G.O. Limited Tax Notes payable, dated June 21, 2006, interest at 5.37 – 5.55%	\$ 400,000
2007 - \$2,580,000 G.O. Limited Tax Notes payable, dated June 21, 2007, interest at 5.20 – 5.75%	<u>1,780,000</u>
	<u>\$ 2,180,000</u>

Annual debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest	Total
2008	\$ 1,700,000	\$ 88,645	\$ 1,788,645
2009	480,000	20,120	500,120
	<u>\$ 2,180,000</u>	<u>\$ 108,765</u>	<u>\$ 2,288,765</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Drain Commission component unit

Notes payable. The Drain Commission issues notes payable for the construction or major maintenance of drainage and lake level districts. Such notes are repaid by local property owners.

	<u>Due</u>	<u>Installments</u>	<u>Interest Rate</u>	<u>Amount</u>
Various drain construction and equipment notes	Various	\$23,304 to \$11,000	2.07 to 3.46%	<u>\$ 11,000</u>

Annual debt service requirements to maturity for drain notes are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 11,000</u>	<u>\$ 381</u>	<u>\$ 11,381</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Changes in long-term debt.

Long-term debt liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental activities					
1996 Building Authority Bonds	\$ 1,305,000	\$ -	\$ 95,000	\$ 1,210,000	\$ 105,000
2005 Capital Improvement Bonds	2,065,000	-	75,000	1,990,000	80,000
Capital leases	66,325	61,831	51,875	76,281	50,862
Installment purchase contract	-	600,000	-	600,000	110,000
Compensated absences	364,764	-	17,361	347,403	35,000
	<u>\$ 3,801,089</u>	<u>\$ 661,831</u>	<u>\$ 239,236</u>	<u>\$ 4,223,684</u>	<u>\$ 380,862</u>
Business - type activities					
Bonds:					
1998 Building Authority -MCF	\$ 1,690,000	\$ -	\$ 105,000	\$ 1,585,000	\$ 110,000
2006 Building Authority -MCF	8,000,000	-	150,000	7,850,000	200,000
2005 Capital Improvement - MCF	410,000	-	75,000	335,000	80,000
BPW #1 - Litchfield	915,000	-	120,000	795,000	120,000
BPW #6 - Jonesville	-	1,140,000	105,000	1,035,000	110,000
BPW #6 - Jonesville	1,115,000	-	1,115,000	-	-
Total bonds	<u>12,130,000</u>	<u>1,140,000</u>	<u>1,670,000</u>	<u>11,600,000</u>	<u>620,000</u>
Notes:					
GO Limited Tax Notes 2005	400,000	-	400,000	-	-
GO Limited Tax Notes 2006	1,600,000	-	1,200,000	400,000	400,000
GO Limited Tax Notes 2007	-	2,580,000	800,000	1,780,000	1,300,000
Total Notes	<u>2,000,000</u>	<u>2,580,000</u>	<u>2,400,000</u>	<u>2,180,000</u>	<u>1,700,000</u>
Total Business - type activities	<u>\$ 14,130,000</u>	<u>\$ 3,720,000</u>	<u>\$ 4,070,000</u>	<u>\$ 13,780,000</u>	<u>\$ 2,320,000</u>
Drain Commission component unit					
Caterpillar Tractor	\$ 2,804	\$ -	\$ 2,804	\$ -	\$ -
Walker Interstate Drain	22,000	-	11,000	11,000	11,000
Doty-Chamberlain	9,500	-	9,500	-	-
	<u>\$ 34,304</u>	<u>\$ -</u>	<u>\$ 23,304</u>	<u>\$ 11,000</u>	<u>\$ 11,000</u>
Road Commission component unit					
Compensated absences	<u>\$ 348,945</u>	<u>\$ 18,458</u>	<u>\$ -</u>	<u>\$ 367,403</u>	<u>\$ 70,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk Management / Self-Insurance Program

The County is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The County has purchased commercial insurance for employee medical benefit claims, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in a risk pool at Employer's Reinsurance Corporation for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (risk pool) program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, and the Authority uses the premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the County. As of December 31, 2007, the County estimates that its funds on deposit with the Authority are sufficient to cover any outstanding claims. Accordingly, no liability has been recorded.

Workers' Compensation. The government maintains a self-insurance program for workers' compensation coverage which is accounted for in an internal service fund (i.e., the Self Insurance fund). The program is administered by a third party administrator who conducts safety inspections and provides claims review and processing services. Premiums are paid into the internal service fund by all other funds based on payrolls and job classifications and are available to pay claims, claim reserves, excess coverage and administrative costs.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$350,000 subject to an annual aggregate limit of \$768,232. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Changes in the balances of claims liabilities during the past two years are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of year	\$ 21,823	\$ 1,713
Incurred claims (including IBNR's)	19,222	38,952
Claim payments	<u>(18,332)</u>	<u>(18,842)</u>
Unpaid claims, end of year	<u>\$ 22,713</u>	<u>\$ 21,823</u>

Road Commission

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Hillsdale County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

B. Property taxes

Prior to 2005, the County property taxes were levied annually on December 1 (the lien date) to fund operations of the following year. The property taxes were due in full within 90 days (prior to March 1), at which time uncollected taxes became delinquent.

In 2004, the State of Michigan passed Public Act 357. This Act provides a temporary funding mechanism as a substitute for state revenue sharing payments to counties. As a result of this new law, the County's levy date began a phased shifting (or acceleration) over a 3-year period from December 1 to July 1 of each year. In 2005, one-third of the tax levy took place on July 1 and two-thirds took place on December 1. In 2006, two-thirds of the tax levy took place on July 1 and one-third took place on December 1. In 2007 and each year thereafter, one-hundred percent of the tax levy will take place on July 1. The Act also requires that an amount equal to one-third of the December 2004 tax levy be placed each year for three years into the newly created Revenue Sharing Reserve Fund, a special revenue fund. An annual transfer, in an amount determined by the State of Michigan, is made from the Revenue Sharing Reserve Fund into the General Fund equal to the amount of revenue sharing the County used to receive from the State, adjusted for inflation.

For the ambulance, senior services and Medical Care Facility, the assessed and taxable value of real and personal property for the December 1, 2006 levy, for which revenue was recognized in fiscal 2007, was \$1,250,345,615. For the general fund, the assessed and taxable value of real and personal property for the July 1, 2007 levy, for which revenue was recognized in fiscal 2007, was \$1,322,585,804. The general operating tax rate for this levy was at the maximum rate of 4.9552 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The County also had a voter approved tax of .3908 mills for ambulance services, .4968 mills for senior services, and .5786 mills for the Medical Care Facility.

By agreement with various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent taxes receivable.

C. Employee retirement systems and plans

Defined Contribution Pension Plan - Primary Government

The County provides pension benefits to all of its full-time employees (except for the Sheriff's Department) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Hillsdale County Retirement Fund, the County contributes 6.5 percent for all the general County employees' gross earnings and 4 percent for all Medical Care Facility employees. Employees contribute 2-10 percent of earnings. In accordance with these requirements, the County contributed \$498,355 for the year ended December 31, 2007 and employees contributed \$408,756.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The Hillsdale County Board of Commissioners established both plans and may amend them and the related contribution requirements, subject to the County's various collective bargaining agreements. The plans are administered and the assets are in the custody of third-party insurance companies.

Defined Benefit Pension Plan – Primary Government

Plan Description - MERS

Employees of the Sheriff Department, except the Sheriff and Under sheriff, are eligible to participate in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917, or by calling (800) 767-6377.

Funding Policy

The County is required to contribute at an actuarially determined rate; the current rate for the County is 7.5 to 8% of annual covered payroll for each employee group. All participating employees are required to contribute between 2% and 10% percent of their annual salary. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County Board of Commissioners, depending on the MERS contribution program adopted by the County.

For the year ended December 31, 2007, the annual pension cost of \$142,380 was equal to the required and actual contributions of the County. The required contributions were determined as part of the December 31, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year after retirement for certain retirees depending on the benefit option selected. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2006.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/05	\$ 135,768	100%	\$ -
12/31/06	136,951	100	-
12/31/07	142,380	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/04	\$ 1,308,037	\$3,575,849	\$ 2,267,812	37%	\$1,745,556	130%
12/31/05	1,590,906	3,963,875	2,372,969	40	1,757,755	135
12/31/06	1,881,418	4,219,255	2,337,837	45	1,784,608	131

Defined Benefit Pension Plan - Road Commission

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.40% for Association members and 11.55% for non-Association members. Certain employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission. In addition, Road Commission Association employees are currently required to contribute 5.3% of annual compensation, and non-Association employees are required to contribute 9.9% of annual compensation.

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$155,495 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2006, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/05	\$146,018	100%	\$ -
12/31/06	151,739	100	-
12/31/07	155,495	100	-

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/04	\$ 3,660,821	\$ 6,055,828	\$ 2,395,007	60%	\$1,904,720	69%
12/31/05	4,028,654	6,292,619	2,263,965	64	1,893,260	120
12/31/06	4,507,820	6,590,191	2,082,371	68	1,767,724	118

D. Postemployment Benefits

The County provides 50% of the cost of health insurance benefits for retired employees of two union groups meeting certain service requirements. Costs incurred by the County during 2007 amounted to \$25,109 among 4 retirees.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the County's financial statements for future reporting periods.

E. Contingent Liabilities

Amounts received or receivable from grantor agencies and health care intermediaries including Medicare and Medicaid are subject to audit and adjustment by the grantor agencies or intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors or intermediaries cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government and its component units, individually or jointly, are a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

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COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 22,102	\$ 1,383	\$ 29,844	\$ 6,885	\$ 56,558
Taxes receivable	-	516,867	-	657,061	-
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Interest receivable	85	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 22,187	\$ 518,250	\$ 29,844	\$ 663,946	\$ 56,558
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 8,003	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	927	-	-	-	-
Due to other governments	-	-	-	-	-
Deferred revenue	-	516,867	-	657,061	-
Total liabilities	8,930	516,867	-	657,061	-
Fund balances					
Unreserved:					
Undesignated (deficit)	13,257	1,383	29,844	6,885	56,558
Total fund balances	13,257	1,383	29,844	6,885	56,558
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 22,187	\$ 518,250	\$ 29,844	\$ 663,946	\$ 56,558

Special Revenue

Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust
\$ 213,983	\$ 342	\$ 3,163	\$ 11,443	\$ 31,484	\$ 74,720	\$ 30,750	\$ 173,691	\$ 7,089	\$ 278
-	-	-	-	-	-	-	-	-	-
-	-	-	-	1,447	18,554	-	13,417	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	99	-	-
\$ 213,983	\$ 342	\$ 3,163	\$ 11,443	\$ 32,931	\$ 93,274	\$ 30,750	\$ 187,207	\$ 7,089	\$ 278
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,782	\$ -	\$ -
-	-	-	-	-	-	-	8,920	-	-
-	-	-	-	-	58,000	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	58,000	-	36,702	-	-
213,983	342	3,163	11,443	32,931	35,274	30,750	150,505	7,089	278
213,983	342	3,163	11,443	32,931	35,274	30,750	150,505	7,089	278
\$ 213,983	\$ 342	\$ 3,163	\$ 11,443	\$ 32,931	\$ 93,274	\$ 30,750	\$ 187,207	\$ 7,089	\$ 278

continued...

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds (Concluded)
December 31, 2007

	<u>Special Revenue</u>				<u>Debt Service</u>
	<u>Building Inspection</u>	<u>Homeland Security</u>	<u>GIS/Mapping Technology</u>	<u>Drug Offender</u>	<u>DHS Building Authority Debt Service</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 136,272	\$ (16,708)	\$ 1,968	\$ 44,607	\$ 473
Taxes receivable	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Due from other governments	-	19,345	-	18,136	-
Interest receivable	-	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 136,272</u>	<u>\$ 2,637</u>	<u>\$ 1,968</u>	<u>\$ 62,743</u>	<u>\$ 473</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ -	\$ 2,643	\$ -	\$ -	\$ -
Accrued liabilities	3,587	-	-	-	-
Due to other governments	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>3,587</u>	<u>2,643</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances					
Unreserved:					
Undesignated (deficit)	<u>132,685</u>	<u>(6)</u>	<u>1,968</u>	<u>62,743</u>	<u>473</u>
Total fund balances	<u>132,685</u>	<u>(6)</u>	<u>1,968</u>	<u>62,743</u>	<u>473</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 136,272</u>	<u>\$ 2,637</u>	<u>\$ 1,968</u>	<u>\$ 62,743</u>	<u>\$ 473</u>

Capital Projects		Permanent Funds				
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	Total	
\$ 898,660	\$ 6,424	\$ 236	\$ 2,864	\$ 47	\$ 1,738,558	
-	-	-	-	-	1,173,928	
-	-	-	-	-	33,418	
-	-	-	-	-	37,481	
4,708	-	-	14	-	4,906	
<hr/>						
\$ 903,368	\$ 6,424	\$ 236	\$ 2,878	\$ 47	\$ 2,988,291	
<hr/>						
\$ 174,530	\$ -	\$ -	\$ -	\$ -	\$ 212,958	
-	-	-	-	-	13,434	
-	-	-	-	-	58,000	
-	-	-	-	-	1,173,928	
<hr/>						
174,530	-	-	-	-	1,458,320	
<hr/>						
728,838	6,424	236	2,878	47	1,529,971	
<hr/>						
728,838	6,424	236	2,878	47	1,529,971	
<hr/>						
\$ 903,368	\$ 6,424	\$ 236	\$ 2,878	\$ 47	\$ 2,988,291	
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COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court
Revenue					
Property taxes	\$ -	\$ 465,842	\$ -	\$ 592,738	\$ -
Intergovernmental	-	-	-	-	-
Contributions	-	-	-	-	-
Fines and forfeits	-	-	1,015	-	23,664
Charges for services	36,471	-	-	-	-
Refunds and reimbursements	-	-	-	-	-
Interest and rentals	1,359	-	-	-	-
Other revenue	25,000	-	-	-	-
Total revenue	62,830	465,842	1,015	592,738	23,664
Expenditures					
Current:					
Judicial	-	-	-	-	5,121
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Health and welfare	-	468,644	-	590,787	-
Recreation and culture	65,670	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	65,670	468,644	-	590,787	5,121
Revenue over (under) expenditures	(2,840)	(2,802)	1,015	1,951	18,543
Other financing sources (uses)					
Proceeds from debt issuance	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net changes in fund balances	(2,840)	(2,802)	1,015	1,951	18,543
Fund balances, beginning of year	16,097	4,185	28,829	4,934	38,015
Fund balances (deficit), end of year	\$ 13,257	\$ 1,383	\$ 29,844	\$ 6,885	\$ 56,558

Special Revenue										
Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
61,285	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	68,327	-	-	
-	-	-	-	-	-	-	1,298	-	-	
-	16,649	8,962	5,000	6,187	267,141	33,067	314,172	-	6,848	
61,285	16,649	8,962	5,000	6,187	267,141	33,067	383,797	-	6,848	
-	-	-	7,538	-	-	-	-	-	-	
48,709	-	-	-	-	-	-	-	-	-	
-	17,295	7,249	-	90	-	-	-	-	-	
-	-	-	-	-	294,947	157,524	851,748	85,279	7,613	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
48,709	17,295	7,249	7,538	90	294,947	157,524	851,748	85,279	7,613	
12,576	(646)	1,713	(2,538)	6,097	(27,806)	(124,457)	(467,951)	(85,279)	(765)	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	58,000	115,423	503,783	70,199	-	
-	-	-	-	-	-	(3,783)	(5,423)	-	-	
-	-	-	-	-	58,000	111,640	498,360	70,199	-	
12,576	(646)	1,713	(2,538)	6,097	30,194	(12,817)	30,409	(15,080)	(765)	
201,407	988	1,450	13,981	26,834	5,080	43,567	120,096	22,169	1,043	
\$ 213,983	\$ 342	\$ 3,163	\$ 11,443	\$ 32,931	\$ 35,274	\$ 30,750	\$ 150,505	\$ 7,089	\$ 278	

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Governmental Funds (Concluded)
December 31, 2007

	Special Revenue				Debt Service
	Building Inspection	Homeland Security	GIS/Mapping Technology	Drug Offender	DHS Building Authority Debt Service
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	29,523	-	38,579	-
Contributions	-	-	-	-	167,332
Fines and forfeits	-	-	-	-	-
Charges for services	429,332	-	-	-	-
Refunds and reimbursements	5,708	-	-	-	-
Interest and rentals	-	-	-	-	8
Other revenue	-	-	1,456	35,194	-
Total revenue	435,040	29,523	1,456	73,773	167,340
Expenditures					
Current:					
Judicial	-	-	-	-	-
General government	-	-	2,000	-	-
Public safety	412,896	29,529	-	37,048	-
Health and welfare	-	-	-	-	-
Recreation and culture	-	-	-	-	-
Debt service					
Principal	-	-	-	-	95,000
Interest	-	-	-	-	72,332
Total expenditures	412,896	29,529	2,000	37,048	167,332
Revenue over (under) expenditures	22,144	(6)	(544)	36,725	8
Other financing sources (uses)					
Proceeds from debt issuance	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net changes in fund balances	22,144	(6)	(544)	36,725	8
Fund balances, beginning of year	110,541	-	2,512	26,018	465
Fund balances (deficit), end of year	\$ 132,685	\$ (6)	\$ 1,968	\$ 62,743	\$ 473

Capital Projects		Permanent Funds			Total
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,058,580
-	-	-	-	-	68,102
-	-	-	-	-	167,332
-	-	-	-	-	85,964
-	-	-	-	-	465,803
-	-	-	-	-	74,035
47,986	67	1	115	-	50,834
12,000	-	-	-	-	731,676
59,986	67	1	115	-	2,702,326
-	-	-	-	-	12,659
944,679	-	1	(1)	-	995,388
-	-	-	-	-	504,107
-	-	-	-	-	2,456,542
-	-	-	-	-	65,670
-	-	-	-	-	95,000
-	-	-	-	-	72,332
944,679	-	1	(1)	-	4,201,698
(884,693)	67	-	116	-	(1,499,372)
600,000	-	-	-	-	600,000
200,000	-	-	-	-	947,405
-	-	-	-	-	(9,206)
800,000	-	-	-	-	1,538,199
(84,693)	67	-	116	-	38,827
813,531	6,357	236	2,762	47	1,491,144
\$ 728,838	\$ 6,424	\$ 236	\$ 2,878	\$ 47	\$ 1,529,971

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Assets

Nonmajor Enterprise Funds

December 31, 2007

	1997	1998	1999	2000	2001	2002
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 37,170	\$ 264,190
Taxes receivable	-	-	-	-	84	1,244
Accounts receivable	-	-	-	-	-	-
Current portion of leases receivable	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Total current assets	-	-	-	-	37,254	265,434
Noncurrent assets:						
Leases receivable, net of current portion	-	-	-	-	-	-
Capital assets	-	-	-	-	-	-
Total assets	-	-	-	-	37,254	265,434
Liabilities						
Current liabilities:						
Accounts payable	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	-	-
Due to other governments	-	-	-	-	10,554	11,440
Current portion of long-term debt	-	-	-	-	-	-
Total current liabilities	-	-	-	-	10,554	11,440
Long-term liabilities:						
Due in more than one year	-	-	-	-	-	-
Total liabilities	-	-	-	-	10,554	11,440
Net assets						
Invested in capital assets	-	-	-	-	-	-
Restricted by statute	-	-	-	-	32,207	258,472
Unrestricted (deficit)	-	-	-	-	(5,507)	(4,478)
Total net assets	\$ -	\$ -	\$ -	\$ -	\$ 26,700	\$ 253,994

2003		2004		2005		BPW #2		BPW #1		BPW #6		Total					
Delinquent	Delinquent	Delinquent	E-911	Geographic	Townships of	City of	Village of										
Tax Revolving	Tax Revolving	Tax Revolving	Emergency	Information	Jefferson and	Litchfield	Jonesville										
				Systems	Pittsford												
\$	169,412	\$	203,264	\$	505,331	\$	(3,586)	\$	49,099	\$	-	\$	742	\$	29	\$	1,225,651
	6,717		12,210		220,348		-		-		-		-		-		240,603
	-		-		-		41,376		-		-		-		-		41,376
	-		-		-		-		-		-		120,000		110,000		230,000
	-		3,665		2,765		-		-		-		-		-		6,430
	176,129		219,139		728,444		37,790		49,099		-		120,742		110,029		1,744,060
	-		-		-		-		-		-		675,000		925,000		1,600,000
	-		-		-		24,988		-		-		-		-		24,988
	176,129		219,139		728,444		62,778		49,099		-		795,742		1,035,029		3,369,048
	50,000		-		11,805		-		-		-		-		-		61,805
	-		-		-		8,348		-		-		-		-		8,348
	12,390		11,911		8,220		-		-		-		-		-		54,515
	-		-		400,000		-		-		-		120,000		110,000		630,000
	62,390		11,911		420,025		8,348		-		-		120,000		110,000		754,668
	-		-		-		-		-		-		675,000		925,000		1,600,000
	62,390		11,911		420,025		8,348		-		-		795,000		1,035,000		2,354,668
	-		-		-		24,988		-		-		-		-		24,988
	125,984		179,143		-		-		-		-		-		-		595,806
	(12,245)		28,085		308,419		29,442		49,099		-		742		29		393,586
\$	113,739	\$	207,228	\$	308,419	\$	54,430	\$	49,099	\$	-	\$	742	\$	29	\$	1,014,380

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2007

	1997 Delinquent Tax Revolving	1998 Delinquent Tax Revolving	1999 Delinquent Tax Revolving	2000 Delinquent Tax Revolving	2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving
Operating revenue						
Charges for services	\$ -	\$ -	\$ 74	\$ 285	\$ -	\$ -
Refunds and reimbursements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Other operating revenue	-	-	-	-	-	-
Total operating revenue	-	-	74	285	-	-
Operating expense						
Cost of services	5,141	-	-	-	597	-
Operating income (loss)	(5,141)	-	74	285	(597)	-
Non-operating revenue (expenses)						
Interest revenue	-	-	-	-	1	-
Interest expense	-	-	-	-	-	(3)
Total non-operating revenue (expenses)	-	-	-	-	1	(3)
Income (loss) before transfers	(5,141)	-	74	285	(596)	(3)
Transfers						
Transfers in	-	-	-	-	-	-
Transfers out	(2,651)	(9,680)	(45,687)	(78,656)	(132,062)	-
Total transfers	(2,651)	(9,680)	(45,687)	(78,656)	(132,062)	-
Change in net assets	(7,792)	(9,680)	(45,613)	(78,371)	(132,658)	(3)
Net assets, beginning of year	7,792	9,680	45,613	78,371	159,358	253,997
Net assets, end of year	\$ -	\$ -	\$ -	\$ -	\$ 26,700	\$ 253,994

2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 480	\$ 234,622	\$ 129,067	\$ 697,050	\$ 3,051	\$ -	\$ -	\$ -	\$ 1,064,629
-	-	-	10,167	-	-	-	-	10,167
1,012,500	-	-	-	-	-	-	-	1,012,500
-	-	-	39,304	6,875	-	137,137	170,008	353,324
1,012,980	234,622	129,067	746,521	9,926	-	137,137	170,008	2,440,620
1,024,561	33,829	102,549	799,135	30,328	-	137,154	170,024	2,303,318
(11,581)	200,793	26,518	(52,614)	(20,402)	-	(17)	(16)	137,302
(4,226)	109,160	155,117	2,953	-	-	9	13	263,027
(1)	(12,267)	1	-	-	-	-	-	(12,270)
(4,227)	96,893	155,118	2,953	-	-	9	13	250,757
(15,808)	297,686	181,636	(49,661)	(20,402)	-	(8)	(3)	388,059
-	-	-	-	2,500	-	-	-	2,500
-	(400,000)	-	-	-	-	-	-	(668,736)
-	(400,000)	-	-	2,500	-	-	-	(666,236)
(15,808)	(102,314)	181,636	(49,661)	(17,902)	-	(8)	(3)	(278,177)
129,547	309,542	126,783	104,091	67,001	-	750	32	1,292,557
\$ 113,739	\$ 207,228	\$ 308,419	\$ 54,430	\$ 49,099	\$ -	\$ 742	\$ 29	\$ 1,014,380

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2007

	1997 Delinquent Tax Revolving	1998 Delinquent Tax Revolving	1999 Delinquent Tax Revolving	2000 Delinquent Tax Revolving	2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving
Cash flows from operating activities						
Cash received from customers	\$ -	\$ 5,576	\$ -	\$ -	\$ -	\$ 2,895
Cash paid to employees						
Cash payments to suppliers for goods and services	-	-	-	-	(597)	-
Net cash provided by (used in) operating activities	-	5,576	-	-	(597)	2,895
Cash flows from non-capital financing activities						
Tax notes redeemed	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	(2,651)	(9,680)	(45,687)	(78,656)	(132,062)	-
Net cash provided by (used in) non-capital financing activities	(2,651)	(9,680)	(45,687)	(78,656)	(132,062)	-
Cash flows from capital and related financing activities						
Interest payments	-	-	-	-	-	(3)
Proceeds from long-term debt	-	-	-	-	-	-
Principal payments	-	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	-	-	-	-	(3)
Cash flows from investing activities						
Interest received	-	-	-	-	1	-
Amounts collected on leases receivable	-	-	-	-	-	-
Total cash provided from investing activities	-	-	-	-	1	-
Net increase (decrease) in cash and cash equivalents	(2,651)	(4,104)	(45,687)	(78,656)	(132,658)	2,892
Cash and cash equivalents, beginning of year	2,651	4,104	45,687	78,656	169,828	261,298
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,170</u>	<u>\$ 264,190</u>

2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 1,013,742	\$ 422,792	\$ 924,165	\$ 745,276	\$ 9,926	\$ -	\$ 137,137	\$ 250,008	\$ 3,511,517
(968,371)	(25,378)	(82,524)	(778,516)	(30,328)	-	(137,154)	(170,024)	(2,192,892)
45,371	397,414	841,641	(33,240)	(20,402)	-	(17)	79,984	1,318,625
-	(400,000)	(1,200,000)	-	-	-	-	-	(1,600,000)
-	-	-	-	2,500	-	-	-	2,500
-	(400,000)	-	-	-	-	-	-	(668,736)
-	(800,000)	(1,200,000)	-	2,500	-	-	-	(2,266,236)
(1)	(12,267)	1	-	-	-	(14,482)	-	(26,752)
-	-	-	-	-	-	-	1,140,000	1,140,000
-	-	-	-	-	-	(120,000)	(1,220,000)	(1,340,000)
(1)	(12,267)	1	-	-	-	(134,482)	(80,000)	(226,752)
(4,226)	109,160	155,117	2,953	-	-	9	13	263,027
			-	-	-	134,482	-	134,482
(4,226)	109,160	155,117	2,953	-	-	134,491	13	397,509
41,144	(305,693)	(203,241)	(30,287)	(17,902)	-	(8)	(3)	(776,854)
128,268	508,957	708,572	26,701	67,001	-	750	32	2,002,505
\$ 169,412	\$ 203,264	\$ 505,331	\$ (3,586)	\$ 49,099	\$ -	\$ 742	\$ 29	\$ 1,225,651

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds (Concluded)
For the Year Ended December 31, 2007

	1997	1998	1999	2000	2001	2002
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Cash flows from operating activities						
Operating income (loss)	\$ (5,141)	\$ -	\$ 74	\$ 285	\$ (597)	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	-	-	-	-	-	-
(Increase) decrease in:						
Accounts receivable	-	-	-	878	-	-
Taxes receivable	5,141	5,576	-	-	-	2,895
Interest receivable	-	-	-	-	-	-
Increase (decrease) in:						
Accounts payable and accrued expenses	-	-	(74)	(1,163)	-	-
Net cash provided by (used in) operating activities	\$ -	\$ 5,576	\$ -	\$ -	\$ (597)	\$ 2,895

2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 City of Jonesville	Total
\$ (11,581)	\$ 200,793	\$ 26,518	\$ (52,614)	\$ (20,402)	\$ -	\$ (17)	\$ (16)	\$ 137,302
			23,406	-	-			23,406
(6,190)	(3,460)	-	(1,593)		-		80,000	69,635
2,483	194,928	797,689	-	-	-			1,008,712
4,469	(3,298)	(2,591)	348	-	-			(1,072)
56,190	8,451	20,025	(2,787)	-	-			80,642
\$ 45,371	\$ 397,414	\$ 841,641	\$ (33,240)	\$ (20,402)	\$ -	\$ (17)	\$ 79,984	\$ 1,318,625

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Fiduciary Funds
December 31, 2007

	Trust & Agency	Land Policy Education	Library Penal Fines	Employee Benefit Trust	Sheriff Department Retirement	Total
Assets						
Cash and cash equivalents	\$ 523,740	\$ 7,186	\$ 91,347	\$ 873	\$ 25,743	\$ 648,889
Liabilities						
Due to other governments	197,213	(1)	-	-	-	197,212
Undistributed receipts	326,527	7,187	91,347	873	25,743	451,677
<u>TOTAL LIABILITIES</u>	\$ 523,740	\$ 7,186	\$ 91,347	\$ 873	\$ 25,743	\$ 648,889

COUNTY OF HILLSDALE, MICHIGAN
Statement of Net Assets / Governmental Funds Balance Sheet
Drain Commission Component Unit
December 31, 2007

	Debt Service		Capital
	Drain Construction Debt	Drain Special Assessment	Lake Level Special Assessment
Assets			
Cash and cash equivalents	\$ 1,950	\$ 266,406	\$ 2,297
Special assessments receivable	-	257,369	-
Accounts receivable	-	-	-
Due from other funds	-	-	337,192
Capital assets, net	-	-	-
	<u>\$ 1,950</u>	<u>\$ 523,775</u>	<u>\$ 339,489</u>
Total assets	<u>\$ 1,950</u>	<u>\$ 523,775</u>	<u>\$ 339,489</u>
Liabilities			
Due to other funds	\$ -	\$ 337,192	\$ -
Advances from primary government	-	-	339,489
Deferred revenue	-	257,369	-
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
	<u>-</u>	<u>594,561</u>	<u>339,489</u>
Total liabilities	<u>-</u>	<u>594,561</u>	<u>339,489</u>
Fund balances			
Unreserved, undesignated (deficit)	1,950	(70,786)	-
	<u>1,950</u>	<u>(70,786)</u>	<u>-</u>
Total fund balances (deficit)	<u>1,950</u>	<u>(70,786)</u>	<u>-</u>
	<u>\$ 1,950</u>	<u>\$ 523,775</u>	<u>\$ 339,489</u>
Total liabilities and fund balances	<u>\$ 1,950</u>	<u>\$ 523,775</u>	<u>\$ 339,489</u>
Net assets			
Invested in capital assets, net of related debt			
Unrestricted			
Total net assets			

Projects			Internal Service				Statement of Net Assets
Lake Level Revolving	Drain Construction	Drain Equipment Revolving	Total	Adjustments			
\$ 16,415	\$ 3,897	\$ 67,821	\$ 447,743	\$ -	\$ 447,743		
-	-	-	285,369	-	285,369		
2,064	-	-	2,064	-	2,064		
-	-	-	337,192	(337,192)	-		
-	-	450,061	450,061	376,598	826,659		
\$ 18,479	\$ 3,897	\$ 517,882	\$ 1,522,429	39,406	1,561,835		
\$ -	\$ -	\$ -	\$ 337,192	\$ (337,192)	\$ -		
18,479	-	-	357,968	-	357,968		
-	-	-	285,369	(285,369)	-		
-	-	-	-	11,000	11,000		
-	-	-	-	-	-		
18,479	-	-	980,529	(611,561)	368,968		
-	3,897	517,882	541,900	(541,900)	-		
-	3,897	517,882	541,900	(541,900)	-		
\$ 18,479	\$ 3,897	\$ 517,882	\$ 1,522,429				
				826,659	826,659		
				366,208	366,208		
				\$ 1,192,867	\$ 1,192,867		

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Assets
December 31, 2007

Fund balances - Governmental funds	\$ 541,900
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	376,598
Other long-term assets are not available to pay current year expenditures and, therefore, are not recorded in the funds.	
Add - deferred revenue on long-term special assessments receivable	285,369
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Drain notes payable	<u>(11,000)</u>
Net assets of governmental activities	<u><u>\$ 1,192,867</u></u>

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities / Governmental Funds Revenue,
Expenditures, and Changes in Fund Balances
Drain Commission Component Unit
For the Year Ended December 31, 2007

	Debt Service			Capital
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
Revenue				
Interest revenue	\$ 9	\$ 11,750	\$ -	\$ 2,800
Equipment rentals	-	-	-	-
Other revenue	-	264,206	-	14,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	9	275,956	-	16,800
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures/Expenses				
Debt service:				
Principal	-	20,500	-	-
Public works	-	284,987	-	14,829
Depreciation	-	-	-	-
Interest expense	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	-	305,487	-	14,829
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances/ change in net assets	9	(29,531)	-	1,971
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, beginning of year	1,941	(41,255)	-	86,986
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, (deficit) end of year	<u>\$ 1,950</u>	<u>\$ (70,786)</u>	<u>\$ -</u>	<u>\$ 88,957</u>

Projects					
Lake Level Revolving	Drain Construction	Total	Adjustments	Statement of Net Assets	
\$ -	\$ 19	\$ 14,578	\$ 2,408	\$ 16,986	
-	-	-	162,785	162,785	
-	-	278,206	(65,906)	212,300	
-	19	292,784	99,287	392,071	
-	-	20,500	(20,500)	-	
-	-	299,816	53,931	353,747	
-	-	-	71,793	71,793	
-	-	-	210	210	
-	-	320,316	105,434	425,750	
-	19	(27,532)	(6,147)	(33,679)	
-	3,878	51,550	1,174,996	1,226,546	
\$ -	\$ 3,897	\$ 24,018	\$ 1,168,849	\$ 1,192,867	

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balance - Governmental funds	\$ (27,532)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	(9,172)
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Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Add - Payment of debt principal	20,500
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct - change in deferred long-term receivables	(65,906)
---	----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue of the Drain Equipment revolving internal service fund is reported with governmental activities on the statement of net assets.

	<u>48,431</u>
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Change in net assets of governmental activities	<u><u>\$ (33,679)</u></u>
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COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue,
Expenses, and Changes in Net Assets
Drain Commission Component Unit
Internal Service - Drain Equipment Revolving Fund
For the Year Ended December 31, 2007

Revenue

Interest revenue	\$ 2,408
Equipment rental	<u>162,785</u>
Total revenue	<u>165,193</u>

Expenses

Current	
Public works	53,931
Debt service	
Interest	210
Depreciation expense	<u>62,621</u>
Total expenses	<u>116,762</u>

Change in net assets	<u>48,431</u>
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Net assets, beginning of year	<u>469,451</u>
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Net assets, end of year	<u><u>\$ 517,882</u></u>
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SINGLE AUDIT ACT COMPLIANCE

COUNTY OF HILLSDALE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant/ Agreement/ Account Number	Receipts/ Revenue Recognized	Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Passed-through Community Action Agency - Community Development Grant	14.228	n/a	\$ 140,437	\$ 140,437
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Passed-through Michigan Supreme Court Hillsdale County Drug Court	16.738	n/a	37,957	37,957
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Passed through Michigan Office of Highway Safety Planning				
Operation Spotlight Project	20.600	n/a	10,180	10,180
Youth Alcohol Enforcement	20.601	n/a	11,374	11,374
Total Department of Transportation			21,554	21,554
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed-through the Department of Human Services - IV-D Support Incentive	93.563	n/a	94,412	94,412
Child Support Enforcement: Friend of the Court	93.563	n/a	365,631	365,631
Prosecuting Attorney	93.563	n/a	56,651	56,651
Total U.S. Department of Health and Human Services			516,694	516,694
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Passed-through Michigan Department of State Police OMNI grant	84.186	n/a	16,448	16,448
Emergency Management Performance Grant	97.042	n/a	8,107	8,107
2007 State Homeland Security Grant Program	97.067	n/a	19,345	19,345
Total Michigan Department of State Police			43,900	43,900
Passed-through the Michigan Department of Natural Resources: Marine Safety Program Grant	97.012	n/a	21,098	21,098
Total Department of Homeland Security			64,998	64,998
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 781,640	\$ 781,640

COUNTY OF HILLSDALE, MICHIGAN

Note to Schedule Of Expenditures of Federal Awards

For the Year Ended December 31, 2007

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Hillsdale, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



REHMANN ROBSON

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 27, 2008

To the Board of Commissioners
of the County of Hillsdale
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Hillsdale County, Michigan*, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Hillsdale County, Michigan's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2007-1, 2007-2 and 2007-3 to be significant deficiencies internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses..

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Hillsdale County, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Hillsdale County in a separate letter dated June 27, 2008.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

June 27, 2008

To the Board of Commissioners
of the County of Hillsdale
Hillsdale, Michigan

Compliance

We have audited the compliance of *Hillsdale County, Michigan* (the "County") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not
considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not
considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? yes X no

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support Enforcement
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The preparation of financial statements in accordance with GAAP is the responsibility of the County's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the County has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the County's internal controls.

Cause: This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the County to perform this task internally.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2007

Effect: As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible
Officials:**

The County has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2 – Audit adjustments

Criteria: The County is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: During the course of the audit, there were several adjusting journal entries posted to the original “adjusted” trial balance we received. These entries were comprised of entries initiated by both the County and the auditors. Specific and significant material items that required correction included property tax revenue as well as accounts payable relating to construction.

Cause: The County’s internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect: As a result of this condition, the County’s accounting records were initially misstated by amounts material to the financial statements and significant audit adjustments were necessary in order to properly record revenue, receivables and deferred revenue related to property taxes and accounts payable.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2007

View of Responsible Officials:

Counties, including Hillsdale County, were not given sufficient guidance by the Michigan Department of Treasury regarding the accounting treatment for property tax revenue recognition for the third year of the tax shift. In the future, proper accounting for general fund property taxes will be made.

2007-3 - Trust and Agency fund accounting

Criteria: The Trust and Agency fund accounts for balances held in a fiduciary or agency capacity. Detail records supporting these balances should be maintained by the entity to achieve proper internal controls and to ensure that the related control accounts (general ledger balances) are correct. This is a responsibility of the government's financial function.

Condition: In our tests of balances at December 31, 2007, we determined that certain balances of the 701 fund were not reconciled, and for those in which reconciliations were made, differences between the general ledger account and supporting details were identified. This is a repeat comment from the prior year.

Cause: This condition was caused by the County's inability to maintain the reconciliations on a timely basis.

Effect: As a result of this condition, the government lacks internal controls over the maintenance of these accounts, and results in a possibility the underlying general ledger account will have to be adjusted, with adjustments being financed by (or credited to) the general fund.

View of Responsible Officials:

The County will make every effort in 2008 to reconcile accounts of the agency fund, and to make any necessary adjustments thereto.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended December 31, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

2006-2 - Trust and Agency fund accounting

The County intends to implement procedures to ensure there are timely reconciliations of the Trust and Agency accounts.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 27, 2008

To the Board of Commissioners
Hillsdale County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Hillsdale County* (the “County”) for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated February 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the *County’s* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the *County’s* compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the *County’s* compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the *County’s* compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 13, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *County* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. There were no significant or unusual transactions noted during the year.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: Adjustments to property taxes and the related receivables and deferrals as well as adjustments to accrue amounts due for construction activities and insurance payments incurred during 2007.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 27, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of *Hillsdale County* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Hillsdale County

Comments and Recommendations

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the Hillsdale County as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the County's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Other Matters

Payroll approval

During the course of our audit we noted that there is no documented approval of the payroll registers. The independent review and approval of payroll registers is an important internal control, especially since the County's payroll expenditures are such a significant amount of total expenses. In order to enhance internal controls in this area, we recommend that an appropriate individual review and approve the payroll register prior to the payroll checks being run, and that this review be documented.

Hillsdale County

Comments and Recommendations (Continued)

For the Year Ended December 31, 2007

Financial Coordinator Position (Repeat comment)

Our review of the operations of the County, and knowledge of other municipalities of comparable size across the State would indicate that Hillsdale County is understaffed relative to its accounting function. In our opinion, the accounting function needs to be better coordinated between departments. The County is presently on a cash basis general ledger system, and the conversion to the accrual basis of accounting at the end of the year takes a significant amount of time of various County personnel and representatives of the outside audit firm to bring the general ledger system into compliance with the modified accrual basis of accounting for the governmental funds and the accrual basis for the proprietary funds.

Entries to Fund Balance accounts (Repeat comment)

We have noted that there are numerous charges and credits to the beginning fund balance or retained earnings accounts of many funds throughout the year. These charges and credits should be minimized and reserved for larger prior period adjustment amounts. Most of these kinds of adjustments which have historically been coded directly to the fund balance/retained earnings accounts should be coded to a revenue or expense account of the current year for full disclosure and proper tracking, and to provide for a smoother closing out and audit process.

Financial Policies and Procedures Manual

In order to facilitate financial processes, and to provide guidance on various policies and procedures, we recommend that the County consider preparing a complete financial policies and procedures manual. This would provide guidance all in one place on things such as purchasing procedures, receipt procedures, capitalization policies, etc.

OPEB Liability (Informational point)

The County, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability for these benefits in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the County, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment was in place for the County through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

Hillsdale County

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2007

The amount of the annual “ARC” expense must be recorded on each entity’s financial statements. To the extent that this annual “ARC” amount is not currently funded, the under-funding must be reported on the entity’s balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the County should make sure all preparations and forecasts are addressed as the implementation date draws nearer.

* * * * *